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NATIONAL ASSOCIATION OF BUSINESS ECONOMISTS
1986 ANNUAL MEETING MEMBERSHIP SURVEY

Presented by

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Economists are more positive about the economic outlook for 1987 than 1986, according to the most recent survey of NABE members. Real output growth is expected to be almost 3 percent next year, compared with an estimate of 2.5 percent for 1986. Among respondents from goods-producing industries, 48 percent reported their firms have seen increased demand in the past three months. A year ago, only 34 percent reported stronger demand during the summer quarter.

During the past year, inflation fell more than had been expected, and real output growth has been slightly lower than anticipated. However, the important automobile and housing industries have experienced a somewhat better year than expected. The substantial decline of market interest rates that has occurred (in contrast to the expected rise) no doubt contributed to the strong performance of these relatively interest rate sensitive sectors.

NABE members' pessimism about the Federal budget deficits has been warranted, and the pessimism is reflected in forecasts of continued large deficits in 1987 and 1988. The survey results suggest that Gramm-Rudman deficit reduction targets will not be achieved.

Responses to questions about the pending tax legislation indicate that the near-term effects will be mostly negative, while the longer-term effects will be to raise the trend of economic growth.

Major features of the outlook from this year's annual meeting survey include:

- somewhat higher inflation next year than in 1986
- slightly higher interest rates
- stable unemployment
- a lower dollar on foreign exchange markets
- higher fixed-investment spending by businesses
- higher corporate profits
- slightly lower auto sales
- over 100 thousand fewer housing starts

Near-Term Outlook

More than half the respondents to the latest NABE Quarterly Outlook Survey report rising demand in the past three months. That is up from only 44 percent reporting higher demand a year ago. For goods-producing industries, 48 percent reported rising demand, up from 34 percent a year ago.

Nevertheless, as a reflection of continued softness in the economy, only 13 percent of the firms report rising employment in the most recent three months. That is down from 16 percent a year ago. Even worse, 39 percent of the responses reported falling employment, up from 34 and 24 percent, respectively, for the previous two surveys. The results for goods-producing companies were almost identical to those for the total survey.

Inventories were mostly unchanged during the summer months according to the August survey. Only one fourth of the goods-producing companies reported rising inventories, the smallest percentage for a third quarter since 1983.

Capital spending continues to be depressed. Only 18 percent of all firms and 17 percent of goods-producing industries reported rising capital-investment outlays -- the smallest share since the recovery started almost four years ago. Also, 36 percent of the goods-producing companies reported falling capital spending, the highest percentage since early 1983.

Profit margins are not doing well either. Only 24 percent of the respondents indicated rising profit margins in the most recent three months, while 47 percent reported falling profit margins.

Prices charged were reported to be falling at 40 percent of the companies and rising at only 18 percent. Those figures compare with 33 percent falling and 23 percent rising in the previous survey.

Wages and salaries were advancing in the past three months at only one quarter of the reporting companies, down from about one third a year ago. Among goods-producing companies, only 16 percent reported rising wages and salaries, the lowest in the past four years.

National Economy -- Last spring NABE members were more optimistic about the current year than they were by the end of summer. The weak GNP numbers for the second quarter no doubt caused most forecasters to revise down their estimates for the year. Currently, real output is expected to rise only 2.5 percent this year, down from a forecast of 3.2 percent three months ago. The median forecast of 2.9 percent real growth in 1987 has not changed significantly all year.

Inflation is coming in lower than had been expected, thanks to the temporary effects of falling oil prices. The median of survey participants now expects the consumer price index to rise only 2 percent this year, the lowest rate in over 20 years. The inflation forecast for 1987 is certainly not pessimistic, with a median of 3.7 percent. However, the range is very wide, with the most optimistic respondent expecting zero increase in the consumer price index, while the most pessimistic forecast is for an 8 percent increase in the CPI next year.

NABE members continue to expect the unemployment rate to average about 7 percent through 1987. The median forecast of 7 percent unemployment has not changed significantly during the past year, as most expect job creation to just keep pace with labor force growth.

A period of relatively stable interest rates is expected by most forecasters, at least through the end of next year. The median prime rate forecast is 7.5 percent for December 1986, 8 percent for June 1987, and 8% for the end of 1987.

The housing industry is now having the best year it is going to have for some time, according to most NABE forecasters. At an expected 1.9 million housing starts, 1986 will be the best year since 1978. Then, in 1987, new starts are expected to fall off to only 1.78 million units. A year ago, the annual meeting survey indicated only 1.73 million housing starts this year, based on a forecast that interest rates would rise.

The automobile industry is also doing better than had been expected, with a current estimate of 10.9 million sales this year, compared with last year's forecast of 10.4 million. In 1987, the current forecast is for sales of 10.7 million cars, which would be the fourth consecutive year of over 10 million sales.

Real business fixed-investment spending in 1986 has been much weaker than had been expected, primarily due to the cutbacks in the energy-producing sector. The current median forecast for 1987 is for an increase of 2.5 percent, which is better than 1986, but a downward revision from the 5 percent real increase expected as of only three months ago.

The outlook for fiscal policy is bleak. While the expected trend of Federal budget deficits is downwards, that is only because the estimated Fiscal 1986 deficit of $217 billion is so huge. The median forecasts of $186 billion in 1987 and $170 billion in 1988 are not encouraging.

Regarding the outlook for the dollar, over 65 percent of NABE members look for a decline between zero and 10 percent during the next twelve months. About 5 percent look for no change, while only 17 percent expect a stronger dollar.

NABE Forecasts Compared with OMB and CBO -- Respondents to the current NABE Quarterly Survey are less optimistic about the outlook for this year and next compared with the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO). The NABE median forecast of real GNP growth in 1987 of 2.9 percent compares with 3.5 percent for the CBO and 4.2 percent for the OMB. NABE members' slower growth forecast goes along with a higher average unemployment rate next year. The median forecast is 7.0 percent, compared with 6.7 percent for the CBO and 6.6 percent according to OMB. The NABE inflation forecast of 3.7 percent in 1987 is the same as OMB and lower than the CBO forecast of 4.0 percent. The NABE budget deficit estimate for fiscal 1987 of $186 billion is almost the same as the CBO's projection of $184 billion, but above the OMB's deficit of $172 billion on a current services basis.

Five-Year Outlook

Results for this year's annual meeting survey suggest a generally sanguine longer-term outlook. The median forecast for average real output growth over the five-year period to 1990 is 2.9 percent, somewhat higher than the 2.4 percent average annual growth in the previous five years, but virtually the same as in the 1970s. The range of expected five-year average growth rates is fairly wide, from a low of 1 percent to a high of 4.5 percent.

The median five-year inflation forecast is 4 percent, which is lower than the 5.4 percent average rate of the prior five years, and well below the nearly 7.5 percent rate of inflation in the 1970s. If that turns out to be an accurate forecast, it would mean inflation for this decade of 4.7 percent, which is still considerably more than the 3 percent average inflation of the decade of the 1960s.

The range of inflation forecasts is very wide, as the most optimistic of the respondents thinks that in the second half of the decade prices will rise an average of only 1 percent, while the most pessimistic respondent expects a return to a 10 percent inflation on average over the five years.

A companion question regarding the maximum single-year inflation rate in the second half of the 80s produced a median forecast of 5.7 percent, with an exceptionally wide range of 1.5 percent to 14 percent. Industry affiliation data revealed that both the

most optimistic and the most pessimistic respondents are from the non-bank financial industry.

Next Recession -- Concerns about the next recession being "just around the corner" have been a characteristic of NABE forecasts for the past three years. Yet the timing of the next recession continues to be pushed further into the future. Only 30 percent believe we will be in recession by the time we meet in New Orleans a year from now. However, 70 percent believe we will enter recession before the end of 1988.

Policy Questions

Monetary Policy -- We did not ask the members about the cause of the recession, but I think we should on the next survey in November. Whatever the cause, it apparently is not the lagged effects of current monetary policy. Almost 83 percent of the respondents believe recent monetary policy actions are either too stimulative or about right, with over 70 percent indicating about right. We asked members to indicate the one or two variables they look at to assess monetary policy. We wanted to find out if the changing composition of M1 in recent years, together with the behavior of its velocity, influenced the emphasis on this aggregate as an indicator of the thrust of monetary policy actions. We also asked which variables the respondents thought the Fed *should* look at. The two variables receiving the most indications of what members *do* look at were "GNP growth" and "inflation rate," with over 70 percent focusing on at least one of these two measures. However, over 90 percent said the Fed *should* focus on at least one of these two. I guess that means more members want the Fed to look at them than currently do themselves.

In contrast, the third most preferred variable members look at is the Federal funds rate with 27 percent, but only half as many think the Fed *should* look at this variable.

M2 was the monetary aggregate members both look at themselves and think the Fed *should* emphasize. The monetary base was both the second-most preferred aggregate and the second-most recommended aggregate. Only 14 percent indicated they rely on M1 and only 9 percent thought the Fed should emphasize M1.

Gramm-Rudman-Hollings -- We asked whether the Supreme Court ruling earlier this summer restricting the mechanism for automatic spending cuts in the Gramm-Rudman process had caused forecasters to raise their estimates of future deficits. A few more than half said they had increased their deficit forecasts. Of those, 15 percent raised their projections by $10 billion or less, 44 percent increased their estimate of future deficits by $10 to $20 billion, and 28 percent raised their deficit projections by $20 to $30 billion. The other 13 percent raised future deficits by over $30 billion.

Tax Legislation -- In response to questions about the likely effects of the imminent tax legislation, over 44 percent think it will reduce real output growth in the next year. Another 39 percent think it will have little effect, while only 16 percent think the tax legislation will raise near-term real growth.

In contrast, over 49 percent think the tax legislation will raise the longer-term real growth trend. Only 26 percent think the restructuring of Federal taxes will reduce longer-term real growth, and 24 percent say it will have no effect.

Questions about other near-term effects produced the following results. Almost one half of the responses indicated there would be little effect of the tax legislation on interest rates through mid-1987, and fewer than 10 percent would foresee upward pressure on

rates. Over 40 percent think a decline of market interest rates will occur as a result of the new tax structure.

The value of the U.S. dollar is not likely to be affected much by the tax changes according to 52 percent, while almost 39 percent foresee further declines in the dollar as a result of the tax legislation.

The near-term adverse effects of the tax reform bill are likely to fall heaviest on the nonresidential construction and business capital-goods sectors, according to 44 and 37 percent, respectively, of the responses. Another 10 percent cite residential investment as the most adversely affected sector. In sharp contrast, almost 14 percent of the respondents think residential investment will be the most favorably affected sector. Consumer durable spending should be positively affected by the new tax structure, according to over 45 percent of the survey participants.

The idea that this major attempt at tax reform will result in a fairly certain structure for the next several years is not shared by most NABE members. Almost 64 percent do not believe the tax laws will be left basically unchanged over the next three to five years. I guess whether that is good or bad depends on whether one likes this tax bill or not, and we did not ask that question. According to those who expect further tax law changes to follow this legislation, almost 18 percent said it would occur in 1987, 39 percent in 1988, and another 37 percent gave 1988 as the next year for new legislation.

Exchange Rates -- NABE members are decisively negative about the prospects of an international agreement being reached which would result in stabilization of exchange rates. Almost 90 percent of the survey participants do not expect an agreement to be reached. Even of the small minority who believe an agreement will be reached, 87 percent replied that it would not be effective. These results can be interpreted to indicate that only about 1 percent of NABE members expect a change from the current regime of unmanaged floating exchange rates for the foreseeable future.

NABE members are pessimistic about exchange rate movements ultimately eliminating the U.S. international deficit. Over 74 percent do not believe the current account deficit will ultimately be eliminated solely by depreciation of the dollar. Of the minority who think exchange rate movements can eliminate the current account deficit, only 23 percent think the dollar has already fallen enough, while one third indicated another 10 to 20 percent depreciation and one third think a 20 to 30 percent additional decline would be required.

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TABLE 1.

Conditions In Your Company During The Past Three Months

(Percentages of Those Responding)

Subject	SURVEY DATE	TOTAL ALL SECTORS RISING	SAME	FALLING	GOODS-PRODUCING RISING	SAME	FALLING
	3Q86	51%	29%	20%	48%	29%	23%
	2Q86	49	32	19	53	30	17
	1Q86	53	32	15	47	39	14
	4Q85	39	45	16	39	47	14
	3Q85	44	33	23	34	42	24
Demand	2Q85	41	35	24	43	32	25
(Unit	1Q85	50	30	20	45	32	23
Volume)	4Q84	47	35	18	42	39	19
	3Q84	57	32	11	53	36	11
	2Q84	75	20	5	81	15	4
	1Q84	74	24	3	88	10	2
	4Q83	70	28	2	84	16	0
	3Q83	66	25	9	74	23	3
	2Q83	59	27	14	65	20	15
	3Q86	13%	48%	39%	15%	46%	39%
	2Q86	19	47	34	19	47	34
	1Q86	18	58	24	19	61	20
	4Q85	12	52	36	13	51	37
	3Q85	16	54	30	16	48	36
	2Q85	22	56	22	23	52	25
Employ-	1Q85	23	55	22	24	50	26
ment	4Q84	21	60	19	23	54	23
	3Q84	26	59	15	30	59	11
	2Q84	36	55	9	44	50	6
	1Q84	34	54	13	36	48	16
	4Q83	36	49	15	43	41	16
	3Q83	31	52	17	34	45	20
	2Q83	22	60	18	19	55	26
	3Q86	23%	52%	25%	25%	50%	25%
	2Q86	29	42	29	32	40	28
	1Q86	26	39	35	29	30	41
	4Q85	20	36	44	21	30	49
Inven-	3Q85	25	38	37	29	33	38
tories	2Q85	34	41	25	39	34	27
(Unit	1Q85	23	42	35	29	37	34
Volume)	4Q84	33	46	21	40	37	23
	3Q84	35	40	25	40	39	21
	2Q84	51	37	13	49	38	13
	1Q84	23	47	30	20	41	39
	4Q83	35	42	23	33	42	25
	3Q83	26	38	36	23	32	45
	2Q83	22	38	40	13	36	52

Subject	SURVEY DATE	TOTAL ALL SECTORS RISING	SAME	FALLING	GOODS-PRODUCING RISING	SAME	FALLING
	3Q86	18%	49%	33%	17%	47%	36%
	2Q86	23	42	35	25	43	32
	1Q86	24	50	26	29	50	21
	4Q85	28	47	25	27	49	24
Capital	3Q85	31	48	21	30	47	23
Investment	2Q85	39	43	18	41	44	15
Outlays	1Q85	39	49	12	45	42	13
(Constant	4Q84	52	36	12	59	31	10
Dollars)	3Q84	50	41	9	59	37	4
	2Q84	43	52	6	45	53	2
	1Q84	46	46	8	46	46	8
	4Q83	33	56	11	29	60	11
	3Q83	39	46	14	26	55	19
	2Q83	32	41	27	17	45	38
	3Q86	24%	29%	47%	24%	31%	45%
	2Q86	34	33	33	41	27	32
	1Q86	21	41	38	24	43	33
	4Q85	26	40	34	24	34	42
	3Q85	22	31	47	22	29	49
Profit	2Q85	25	35	40	26	32	42
Margins	1Q85	27	38	35	26	38	36
	4Q84	41	33	26	33	36	31
	3Q84	34	52	14	27	61	12
	2Q84	43	37	20	70	20	10
	1Q84	40	45	16	52	35	13
	4Q83	54	27	19	67	21	13
	3Q83	45	27	29	55	33	13
	2Q83	44	33	23	40	34	25
	3Q86	18%	42%	40%	24%	45%	31%
	2Q86	23	44	33	30	43	27
	1Q86	14	56	30	16	51	33
	4Q85	15	59	26	16	57	28
	3Q85	15	57	29	14	57	30
Prices	2Q85	22	58	20	23	58	19
You	1Q85	25	48	27	25	43	32
Charge	4Q84	25	52	23	22	47	31
	3Q84	18	60	22	14	62	24
	2Q84	50	45	5	36	52	12
	1Q84	23	67	11	28	54	18
	4Q83	20	70	11	19	70	11
	3Q83	32	56	12	20	62	19
	2Q83	18	48	34	24	52	24

Subject	SURVEY DATE	TOTAL ALL SECTORS RISING	SAME	FALLING	GOODS-PRODUCING RISING	SAME	FALLING
	3Q86	25%	70%	5%	16%	77%	7%
	2Q86	40	57	3	36	60	4
	1Q86	48	49	3	47	52	1
	4Q85	30	65	5	32	61	7
	3Q85	34	63	3	28	68	4
Wages	2Q85	40	57	3	38	59	3
You	1Q85	39	59	2	42	54	4
Pay	4Q84	34	63	3	46	54	0
	3Q84	37	62	1	34	66	0
	2Q84	41	58	2	38	62	0
	1Q84	45	52	3	40	54	6
	4Q83	44	52	3	39	57	4
	3Q83	40	55	6	24	68	8
	2Q83	36	56	8	31	62	7

TABLE 2.

A History of NABE Forecasts

(Forecasts Made the Preceding Summer)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	Average Absolute Error
Real GNP Growth - Annual Average											
Forecast	5.8	5.1	4.5	2.5	0.1	0.7	3.0	2.9	4.5	3.6	
Actual	4.9	4.7	5.3	2.5	-0.2	1.9	-2.5	3.6	6.4	2.7	
Difference	0.9	0.4	-0.8	0.0	0.3	-1.2	5.5	-0.7	-1.9	0.9	1.3
Inflation -- Annual Average [1]											
Forecast	6.5	6.0	6.2	7.3	7.8	8.9	8.3	6.5	5.0	5.0	
Actual	6.4	6.7	7.3	8.9	9.0	9.7	6.4	3.2	4.3	3.6	
Difference	0.1	-0.7	-1.1	-1.6	-1.2	-0.8	1.9	3.3	0.7	1.4	1.3
Change in Average Treasury Bill Rates (in percentage points)											
Forecast	+1.17	+1.03	+0.74	+0.2	-1.06	-1.15	lower [2]	lower [3]	higher [4]		
Actual	-0.80	+0.29	+1.92	+2.88	+1.36	-2.59	-3.40	-2.01	+0.91		
Difference	+2.97	+0.74	-1.18	-2.68	-2.42	+1.44					1.9

[1] GNP Deflator

[2] 52% said short-term rates would be sharply or appreciably lower;
32% said slightly lower.

[3] 62% said either moderately or sharply lower;
22% said little or no change.

[4] 5% said sharply higher; 41% moderately higher; and
22% little or no change.

TABLE 3.

General Business Outlook

(Median Estimates)

	Survey Date			
	3Q86	2Q86	1Q86	4Q85
Real GNP (% Change)				
4Q85 to 4Q86	2.5%	3.2%	3.0%	3.0%
1985 to 1986	2.5	2.8	2.9	2.9
4Q86 to 4Q87	2.9	3.0	3.0	
1986 to 1987	2.7	3.0		
CPI-U (% Change)				
4Q85 to 4Q86	2.0%	2.6%	4.0%	4.0%
1985 to 1986	2.1	2.5	3.8	4.0
4Q86 to 4Q87	3.7			
1986 to 1987	3.3	3.5		
Civilian Unemployment Rate				
4Q86	7.0%	6.9%	7.0%	
1986 Average	7.1	7.0	7.0	7.2%
1987 Average	7.0			
Prime Rate				
31-Dec-86	7.5%	8.5%	9.5%	9.5%
30-Jun-87	8.0			
31-Dec-87	8.0			
Housing Starts (Private non-farm, annual rate, in millions)				
1986 Total	1.90	1.94	1.74	1.72
1987 Total	1.78	1.80		
New Car Sales (Includes imports, annual rate, in millions)				
1986 Total	10.9	10.8	10.5	10.4
1987 Total	10.7	10.7		

	Survey Date			
	3Q86	2Q86	1Q86	4Q85
Real Business Fixed Investment (% Change)				
4Q85to 4Q86	-0.4%	5.0%		
1985 to 1986	0.0	5.5	5.0%	3.8%
1986 to 1987	2.5	5.0		
Budget Deficit ($ Billions)				
FY '86	$217	$200	$200	$200
FY '87	186	175	180	190
FY '88	170	155		
Corporate Profit, After-Tax (% Change)				
1985 to 1986	4.0%	5.0%	5.0%	4.0%
1986 to 1987	4.0	5.0		

TABLE 4.

General Business Outlook By Industry Of Respondent

(Median Estimates)

	Overall	Goods-Producing	Wholesale or Retail Trade	Utilities, Transport. Comm.	Nonbank Finance	Comm'l Banking	Academic	Government	Consulting
Real GNP % Change 4Q86 to 4Q87	2.9%	3.0%	1.8%	2.5%	3.3%	3.0%	2.7%	2.8%	2.8%
CPI % Change 4Q86 to 4Q87	3.7%	3.4%	4.3%	3.5%	3.9%	4.0%	3.7%	3.7%	3.8%
Unemployment Rate 1987Average	7.0%	7.0%	7.0%	7.0%	7.0%	6.9%	7.0%	7.0%	7.0%
Prime Rate									
Dec-86	7.5%	7.5%	7.6%	7.8%	7.5%	7.5%	7.5%	7.5%	7.5%
Jun-87	8.0	8.0	8.6	8.0	8.0	7.7	7.7	7.9	7.6
Dec-87	8.0	8.0	8.2	8.5	8.5	7.5	8.0	8.5	8.0
Housing Starts (millions) 1987 Total	1.78	1.80	1.76	1.80	1.77	1.78	1.75	1.75	1.80
New Car Sales including imports (millions) 1987 Total	10.7	10.8	9.8	10.8	10.7	10.5	10.4	10.7	10.8
Real Business Fixed Investment % Change 1986 to 1987	2.5%	2.3%	0.7%	2.4%	1.8%	1.8%	5.0%	3.5%	3.9%
Corporate Profits	4.0%	4.0%	-1.5%	4.4%	8.2%	4.7%	1.8%	2.1%	3.0%
Budget Deficit (billions) FY 1987	$186	$185	-$203	$185	$180	$185	$193	$190	$195

TABLE 5.

Cyclical Peak and Other Issues

1. In what year do you expect the next recession to begin?

Survey Date	1986	1987	1988	1989 or later
3Q86	8%	30%	32%	30%
2Q86	7	47	29	17
1Q86	12	51	21	16
4Q85	37	46	8	9
3Q85	42	35	6	7
2Q85	58	24	2	3

1986		1987				1988				1989
Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1 or later
4	4	5	8	8	9	8	12	6	5	30

2. What change in the international value of the dollar, calculated on a trade-weighted basis, do you expect over the next twelve months?

Up more than 10%	2%
Up less than 10%	15
No change	5
Down less than 10%	66
Down more than 10%	12

TABLE 6.

NABE Forecast Compared to OMB and CBO

	1986			1987		
	OMB	CBO	NABE	OMB	CBO	NABE
Real GNP (% Change 4Q to 4Q)	3.2%	2.9%	2.5%	4.2%	3.5%	2.9%
CPI-U (% Change 4Q to 4Q)	0.6%*	1.2%*	2.0%	3.7%*	4.0%*	3.7%
Unemployment Rate-Civilian (Year Average)	7.0%	7.0%	7.1%	6.6%	6.7%	7.0%
Budget Deficit - Fiscal Year (Billions)	$230	$224	$217	$172**	$184**	$186

* CPI-W
** Current services

OMB = Office of Management and Budget
CBO = Congressional Budget Office

Sources: Mid-Session Review of the 1987 Budget, OMB, August 1986.
The Economic and Budget Outlook: An Update, CBO, August 1986.
NABE Membership Survey, August/September, 1986.

TABLE 7.

Economic Policy Assessment

1. In my judgment, recent monetary policy actions have been...

Survey Date	Too Stimulative	About Right	Too Restrictive
3Q86	12%	71%	17%
2Q86	14	72	14
1Q86	19	69	12
4Q85	19	69	12
3Q85	22	67	11
2Q85	11	76	13
1Q85	10	81	9
4Q84	7	68	25
3Q84	4	85	11
2Q84	12	74	14
1Q84	3	78	19
4Q83	3	82	15
3Q83	23	69	8

2. Some argue that M1 is no longer the best indicator of Fed policy, due to the change in its composition and decline in velocity. What one or two variables do *you* most focus on to assess Fed policy?

GNP Growth	38%	M3	9%
Inflation Rate	33	Something else	9
Fed Funds	27	Net nonfinancial	
M2	26	debt growth	6
Monetary Base	18	Non borrowed	
M1	14	reserves	5

3. What one or two variables do you believe *should* be the primary focus of Fed policy?

GNP Growth	46%	M3	9%
Inflation Rate	45	Something else	9
M2	22	Net nonfinancial	
Monetary Base	19	debt growth	7
Fed Funds	14	Non borrowed	
M1	9	reserves	5

4. In light of the recent Supreme Court ruling on the GRH deficit reduction law, have you raised your estimates of future deficit levels?

Yes	51%
No	49

5. If you have raised your estimates of future deficit levels, how much higher than your previous estimates do you expect the deficit to be, on average, in each of the next three years?

$0-10 billion	15%
$10-20 billion	44
$20-30 billion	28
More than $30 billion	13

6. Assuming a tax reform bill is passed that resembles the Senate version, what is your estimate of the impact on the following:

A. Real GNP growth rate in the 1986-87 period?

Down more than 2%	4.6%
Down 1-2%	39.9
Little effect	39.1
Up 1-2%	12.2
Up more than 2%	4.2

B. Interest rate levels by mid-1987?

Down more than 200 basis points	2.3%
Down 100-200 bp	38.5
Little effect	49.6
Up 100-200 bp	8.8
Up more than 200 bp	0.8

C. Trade-weighted U.S. dollar by mid-1987?

Down more than 10%	10.2%
Down 5-10%	28.4
Little effect	52.0
Up 5-10%	7.8
Up more than 10%	1.6

D. The sector to be most *adversely* afffected by tax reform is?

Consumer Durables spending	5.4%
Nonresidential construction	43.5
Business capital goods	36.9
Residential investment	10.0
Net exports	0.4
Something else	3.8

E. The sector to be most *favorably* affected by tax reform is?

Consumer Durables spending	45.5%
Nonresidential construction	0.8
Business capital goods	5.5
Residential investment	13.7
Net exports	7.1
Something else	27.4

F. The longer-term trend growth in the U.S. will be?

Increased	49.4%
Decreased	26.4
Unchanged	24.2

7. If the current legislation is passed, would you expect the tax laws to be basically left unchanged for 3-5 years?

Yes	36%
No	64

8. If not, what year would you counsel your management to expect another round of tax changes?

1987	18%
1988	39
1989	37
1990	6

TABLE 8.

Exchange Rates and the Trade Deficit

1. Do you expect an agreement to be reached in 1986 or 1987 that would lead to stabilization of exchange rates in some narrow band similar to that of the European Monetary System?

Yes	10%
No	90

2. If you believe such an agreement will be reached, do you believe it would be effective over, say, the following ten years?

Yes	13%
No	87

3. A. Do you believe exchange rate movements can or will eventually eliminate our current account deficit?

Yes	26%
No	74

B. How much further do you believe the dollar will have to drop (on a trade-weighted basis) in order to achieve current account balance?

Over 30%	11%
20-30%	33
10-20%	33
None, just more time	23

C. If you answered "no" to part A, what other things will have to happen to achieve current account balance?

Find ways to make U.S. industry more competitive	62%
Reduce the U.S. fiscal deficit	53
Encourage other major countries to grow faster	48
Limit foreign imports where trade imbalance	9
Keep U.S. GNP growth below rest of the world	5
Something else	7

4. On the basis of your own policy mix assumptions what change in the international value of the dollar, calculated on a trade-weighted basis, do you expect between now and the end of 1990?

Up over 30%	2.0%
Up 10-30%	28.1
None	16.4
Down 10-30%	49.6
Down 30-50%	3.5
Down more than 50%	0.4

TABLE 9.

A History of NABE Forecasts of the
Trade-Weighted Dollar's Value

(Forecasts Made the Preceding Summer)

	1982	1983	1984	1985	1986	1987
Down sharply	3%	7%	12%	n.a.	32%	12%
Down moderately	36	50	50	n.a.	58	66
Unchanged	10	26	21	n.a.	4	5
Up moderately	39	17	16	n.a.	5	15
Up sharply	8	0	1	n.a.	1	2
No response	4	--	--	n.a.	--	--
*ACTUAL	8.88%	7.42%	10.12%	n.a. -1.78%	-22.00%e	n.a.

* Calculated using Federal Reserve's Value of the Trade-Weighted Dollar; 3Q to 3Q.

TABLE 10.

NABE Median Long-Run Forecast

Historical Record

Projected Real GNP Growth

Years Forecast	Projected Rate		Actual Rate
1975 (74-79)	3.7%	1974-79	3.2%
1976 (75-80)	4.1	1975-80	3.4
1977 (76-81)	3.7	1976-81	2.8
1978 (77-82)	3.4	1977-82	1.4
1979 (78-83)	2.7	1978-83	1.1
1980 (79-84)	3.0	1979-84	1.8
1981 (80-85)	3.2	1980-85	2.4
1982 (81-86)	2.6	1981-86e	2.5
1983 (82-87)	2.8		
1984 (83-88)	3.3		
1985 (84-89)	3.0		
1986 (85-90)	2.9		

Projected Inflation Rate*

1975 (74-79)	6.4%	1974-79	7.8%
1976 (75-80)	5.8	1975-80	7.6
1977 (76-81)	6.0	1976-81	8.3
1978 (77-82)	6.5	1977-82	8.2
1979 (78-83)	7.6	1978-83	7.6
1980 (79-84)	8.2	1979-84	6.5
1981 (80-85)	7.3	1980-85	5.4
1982 (81-86)	6.6	1981-86e	3.8
1983 (82-87)	6.0		
1984 (83-88)	5.5		
1985 (84-89)	4.7		
1986 (85-90)	4.0		

Projected Productivity Growth
(Nonfarm Business Sector)

1979 (78-83)	1.2%	1978-83	0.5%
1980 (79-84)	n.a.	1979-84	1.1
1981 (80-85)	1.4	1980-85e	1.1
1982 (81-86)	1.5		
1983 (82-87)	1.8		
1984 (83-88)	2.3		
1985 (84-89)	2.0		
1986 (85-90)	1.7		

*GNP Deflator for 1975-1981; CPI-All Urban Consumers for 1982-1986.

TABLE 11.

A History of NABE Recession Forecasts

(Responses to the question: "When Will the Next Business Cycle Downturn Begin?")

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Current Year	5%	7%	96%	n.a.	25%	0%	1%	8%	10%	8%
Next Year	29	59	3	n.a.	7	10	8	44	42	30
Year After Next	43	34	1	n.a.	16	17	41	43	35	32
More Than Two Years From Now	24	n.a.	n.a.	n.a.	47	73	50	4	13	30
No Opinion/ No Response	0	0	0	n.a.	5	0	0	1	0	0